

Message Text

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ACTION SS-15

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00
DODE-00 DOTE-00 EB-07 INR-07 NSAE-00 EPG-02
FAA-00 PM-04 NSC-05 SP-02 SSO-00 INRE-00 L-03
H-01 EA-07 TRSE-00 OMB-01 /069 W
-----151820Z 079967 /42

O 151727Z JUN 77
FM AMEMBASSY LONDON
TO WHITE HOUSE IMMEDIATE
INFO SECSTATE WASHDC IMMEDIATE 5069

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 09861

FOR THE PRESIDENT
STATE FOR COOPER. KATZ
PASS DOT (ADAMS, DAVENPORT, KAMM), WHITE HOUSE (JOHNSTON)
CAB (KAHN)
FROM AMBASSADOR ALAN BOYD

E.O. 11652: GDS
TAGS: EAIR, UK
SUBJECT: US-UK CIVIL AVIATION NEGOTIATIONS: STATUS

1. CURRENT AGREEMENT EXPIRES 21 JUNE. UK TERMINATED
AS OF THAT DATE STATING ITS OBJECTIVE TO BE ASSURANCE
OF A 50/50 MARKET SPLIT FOR US/UK AIRLINES. TO
ACCOMPLISH THIS, UK SOUGHT FEWER US AIRLINES OPERATING
TO UK POINTS, ELIMINATION OF US AIRLINE OPERATIONS
BEYOND LONDON AND HONG KONG, AND GOVERNMENT CONTROL OVER
AIRLINE CAPACITY OFFERED.

2. HEARTLAND ISSUES AND POSITIONS
A. US REJECTED BASIC UK OBJECTIVES AS NON-NEGOTIABLE,
BUT AT THE SAME TIME SAID IT COULD PROVIDE ENHANCED
COMPETITIVE OPPORTUNITIES FOR UK AIRLINES AND AGREE TO
MECHANISM WHICH WOULD HELP REDUCE INSTANCES OF EXCESSIVE
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CAPACITY. US HAS AGREED TO REDUCE US AUTHORITY TO NAME
UNLIMITED NUMBER OF AIRLINES ON EACH ROUTE AND DEVELOPED
FORMULA TO THIS END. US HAS ACCEPTED REDUCTION IN, BUT
NOT ELIMINATION OF, POINTS SERVED BEYOND LONDON AND
HONG KONG BY US AIRLINES; HAS AGREED TO A FORMULA,
APPLYING IN EXCEPTIONAL CASES ONLY, THAT EFFECTIVELY
WOULD REDUCE POSSIBILITY OF PREDATORY COMPETITION THRU

IRRATIONAL CAPACITY INCREASES.

B. IN ADDITION, US HAS OFFERED NEW AMERICAN GATEWAYS (ATLANTA, DALLAS, HOUSTON, SAN FRANCISCO) TO UK AIRLINES, AGREED TO REDUCE MULTIPLE US AIRLINE COMPETITION AT TWO EXISTING GATEWAYS AND OFFERED UK AIRLINES UNLIMITED RIGHTS BEYOND US. HAS AGREED TO EXCLUSIVE RIGHT FOR UK AIRLINE HOUSTON-LONDON NONSTOP OPERATION FOR THREE YEARS (WITH RECIPROCAL US EXCLUSIVE RIGHT ON THE ATLANTA-LONDON ROUTE), HAS AGREED TO DELAY NONSTOP SERVICE AT DALLAS-FT. WORTH FOR THREE YEARS TO PERMIT MARKET TO GROW SUFFICIENT TO SUPPORT SUCH SERVICE.

3. CAPACITY

A. DEVELOPMENT OF AN APPROPRIATE CAPACITY CONTROL MECHANISM HAS BEEN MOST DIFFICULT. BOTH SIDES ARE AGREED ON SOME TYPE OF SCREENING OF PROPOSED CAPACITY INCREASES AND ON A CONSULTATIVE EFFORT TO RESOLVE DIFFERENCES OF VIEW, IF ANY. SHARP DIFFERENCES CENTER AROUND (I) SIZE OF CAPACITY WHICH WOULD TRIGGER CONSULTATIONS, (II) STANDARDS TO BE USED IN CONSULTATIONS, AND (III) WHAT CAPACITY INCREASES ARE PERMISSABLE IF CONSULTATIONS FAIL TO REACH AGREEMENT. ON ALL THREE POINTS THERE IS STILL DISAGREEMENT, WITH THE UK PUSHING FOR MORE STRINGENT CONSULTATION MECHANISM THAN IS ACCEPTABLE TO US ON COMPETITIVE GROUNDS.

B. UK DESIRES TO SCREEN ALL SCHEDULES IN EFFORT TO ASSURE HIGHER LOAD FACTOR AND HOPEFULLY ULTIMATE EQUAL MARKET DIVISION. US SAYS MARKET CONDITIONS, NOT GOVERNMENT CONTROL SHOULD DICTATE MARKET DIVISION, ONLY
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CAPACITY INCREASES SHOULD BE SUBJECT TO GOVERNMENT REVIEW TO AVOID PREDATORY COMPETITION.

C. ON INSTRUCTION FROM WASHINGTON, US SHIFTED TO HARDER POSITION OF 13 JUNE. UK REACTED SHARPLY, SAYING THIS PUT THEM IN INTOLERABLE POSITION. WE HAVE NOW REVISED POSITION TO EXTENT THAT UK CAN MAKE NO CHARGE OF BAD FAITH.

4. CHARTERS

A. US POSITION IS THAT MORE LIBERAL CHARTER AGREEMENT MUST BE ACHIEVED, THAT A MORE LIBERAL AGREEMENT MUST BE SOMEHOW LINKED TO BASIC SCHEDULED AIR SERVICES AGREEMENT. UK AGREES IN CONCEPT BUT HAS COMMITMENT TO EUROPEAN COMMUNITY NATIONS THAT PERMITS ONLY A MULTILATERAL AGREEMENT. EUROPEAN NATIONS MORE RESTRICTIVE THAN EITHER US OR UK.

B. US LINKAGE DEMAND WOULD REQUIRE UK TO REFUTE ITS EUROPEAN COMMITMENT OR TO GIVE UP BENEFITS FOR WHICH IT HAS BARGAINED IN US/UK SCHEDULED SERVICES AGREEMENT.

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5. BALANCE OF BENEFITS

AN ORIGINAL UK OBJECTIVE WAS SUBSTANTIAL CHANGE IN
BALANCE OF BENEFITS. THIS THEY HAVE ACHIEVED IN
POSITIONS US HAS ALREADY AGREED TO. US CONCESSIONS
CITED IN PARA 2 ABOVE, WOULD ADD \$200-300 MILLION
ANNUALLY TO UK SIDE OF BENEFITS.

6. ASSESSMENT

A. SITUATION IS FLUID. ON JUNE 3 UK INDICATED SUBSTAN-
TIAL ACCEPTANCE OF US PROPOSALS ON ROUTES, DESIGNATIONS
AND CAPACITY. SUBSEQUENTLY, UK SEEMS TO HAVE PULLED
BACK, HAS BEEN SEEKING TO WHITTLE DOWN US POSITIONS.

B. UK HAS STATED DESIRE FOR NO POLITICAL CONFRONTATION.
AT SAME TIME UK WILL NEGOTIATE FOR A BETTER DEAL UNTIL
ELEVENTH HOUR.

C. IF NOT POSSIBLE TO REACH AGREEMENT ON BASIC ISSUES
BY JUNE 21, THUS FACING BREAKUP AND CESSATION OF SERVICE,
CALLAGHAN MAY BE EXPECTED TO CALL YOU. HE SHOULD GIVE
YOU NOTICE SO WE CAN PREPARE CURRENT ASSESSMENT AND
TALKING POINTS. ADVISE AGAINST YOUR INITIATING ANY
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CONTACT WITH CALLAGHAN; AT PRESENT LET US WAIT THE
BRITISH OUT.

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Message Attributes

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